

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF KERR-McGEE OIL AND GAS)
ONSHORE, L.L.C., TO EXTEND THE TIME)
DURING WHICH IT MAY MAKE UP)
UNDERPRODUCTION IN A GAS PRORATION UNIT)
IN THE INDIAN BASIN-UPPER PENNSYLVANIAN)
GAS POOL, EDDY COUNTY, NEW MEXICO)

CASE NO. 12,537

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 16th, 2000

Santa Fe, New Mexico

CO NOV 30 11:10:57

NEW MEXICO STATE BAR

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 16th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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November 16th, 2000
 Examiner Hearing
 CASE NO. 12,537

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A P P E A R A N C E S

FOR THE DIVISION:

LYN S. HEBERT
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT and DEVON SFS OPERATING, INC.:

JAMES G. BRUCE, Attorney at Law
 3304 Camino Lisa
 Santa Fe, New Mexico 87501
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 1:55 p.m.:

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6 EXAMINER CATANACH: Okay, at this time we'll call
7 Case 12,537, the Application of Kerr-McGee Oil and Gas
8 Onshore, L.L.C., to extend the time during which it may
9 make up underproduction in a gas proration unit in the
10 Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New
11 Mexico.

12 Call for appearances in this case.

13 MR. BRUCE: Mr. Examiner, James Bruce of Santa
14 Fe, representing the Applicant. I have three witnesses to
15 be sworn.

16 I'm also entering an appearance in this case on
17 behalf of Devon SFS Operating, Inc., which is an operator
18 in the Indian Basin-Upper Penn Gas Pool.

19 EXAMINER CATANACH: I'm sorry, Devon what?

20 MR. BRUCE: S, F as in Frank, S Operating,
21 Incorporated.

22 EXAMINER CATANACH: Any additional appearances?
23 Will the witnesses please stand to be sworn in?
24 (Thereupon, the witnesses were sworn.)

25 EXAMINER CATANACH: Mr. Bruce?

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STEVE FOERSTER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. Yes, sir, I'm Steve Foerster.

Q. Where do you reside?

A. Plano, Texas.

Q. Who do you work for and in what capacity?

A. I'm a landman with Kerr-McGee Oil and Gas Onshore, L.L.C.

Q. Have you previously testified before the Division?

A. No, sir, I have not.

Q. Would you please summarize your educational and employment background for the Examiner?

A. Yes, sir, I have a BS in ag economics from Texas A&M University, the class of 1978, I've been a landman for some 22 years. Twenty-one years of that have been with either Kerr-McGee or its predecessor, Oryx Energy Company. I've been working in New Mexico for the past year and a half. I'm a member of the AAPL and a certified professional landman.

Q. And are you familiar with the land matters

1 involved in this Application?

2 A. Yes, sir, I am.

3 MR. BRUCE: Mr. Examiner, I tender Mr. Foerster
4 as an expert petroleum landman.

5 EXAMINER CATANACH: He is so qualified.

6 Q. (By Mr. Bruce) Briefly, Mr. Foerster, what is it
7 that Kerr-McGee seeks in this case?

8 A. We're requesting the extension of time in which
9 to make up production, or make up underproduction, from a
10 gas-proration unit in the Indian Basin-Upper Pennsylvanian
11 Gas Pool. That's our Conoco State well unit, located in
12 Section 2, Township 22 South, Range 23 East, Eddy County,
13 New Mexico.

14 Q. Could you identify Exhibit 1 for the Examiner and
15 tell him what it shows?

16 A. Yes, sir. Exhibit 1 is a plat identifying the
17 boundary of the Indian Basin-Upper Pennsylvanian Gas Pool
18 in red. Operators on each of the sections are shown, or
19 each of the partial sections as the case may be, as well as
20 the well unit names.

21 Shown in yellow on the plat is our Conoco State
22 Well Unit, which is a 674.2-acre oversized well unit.
23 Again, it's located in Section 2, Township 22 South, Range
24 23 East, Eddy County, New Mexico.

25 Situated on the unit -- not shown on this plat,

1 but we'll be showing it in later exhibits -- is our Conoco
2 State Number 6 and 7 wells, which are producing, our Number
3 2 well that is temporarily abandoned, and our Number 1 well
4 that is currently PA'd.

5 Q. Okay. And Section 2 is entirely State of New
6 Mexico lands, is it not?

7 A. Yes, sir, that is correct.

8 Q. Okay. Have you had any contacts with the other
9 operators in this pool?

10 A. Yes, sir, either I or a representative of our
11 company has contacted all of the other operators in the
12 pool.

13 Q. And do they have any objection that you know of
14 to this Application?

15 A. No company has any objection.

16 Q. Okay. And were all of the operators in the pool
17 given notice of this hearing?

18 A. Yes, sir, they were.

19 Q. And is Exhibit 2 my affidavit of notice with the
20 certified letter and return receipts?

21 A. Yes, sir.

22 Q. And were Exhibits 1 and 2 prepared by you or
23 under your supervision or compiled from company business
24 records?

25 A. Yes, sir.

1 Q. And in your opinion, is the granting of this
2 Application in the interests of conservation and the
3 prevention of waste?

4 A. Yes, sir.

5 MR. BRUCE: Mr. Examiner, I'd move the admission
6 of Kerr-McGee Exhibits 1 and 2.

7 EXAMINER CATANACH: Exhibits 1 and 2 will be
8 admitted as evidence.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Foerster, do you know if all of the proration
12 units within the pool have active or producing wells on
13 them?

14 A. I do not believe that all of the units do. I
15 think -- I'm not sure exactly which ones, but I was
16 thinking that probably there are some with some inactive
17 wells on them.

18 Q. Okay. Are you satisfied that even though there's
19 not an active well on a spacing unit, you've notified that
20 operator, or you've notified all the operators --

21 A. Oh, yes, sir.

22 Q. -- out there?

23 A. Yes, sir. Yes, sir. Yes, sir.

24 Q. There is nobody that was excluded because of lack
25 of a producing well?

1 A. No, sir. No, sir. No, sir. No, sir.

2 Q. Okay. And you only have listed five other
3 operators in the pool at this time?

4 A. Yes, sir, Marathon Oil Company; Yates Petroleum
5 Corporation; Chevron USA, Inc.; Devon SFS Operating, Inc.;
6 Texaco Exploration and Production, Inc.; and Kerr-McGee Oil
7 and Gas Onshore, L.L.C.

8 Q. Okay. And did you speak to these operators or --
9 you or someone else in your company?

10 A. Yes, sir, either I or someone else in my company,
11 one of our engineers, called upon several of the companies,
12 and I spoke to a gentleman from Devon as well as a
13 gentleman from Texaco.

14 Q. And to your knowledge, none of these other
15 operators have expressed any concern about your
16 Application?

17 A. No company has any objection that was expressed
18 to us, sir.

19 EXAMINER CATANACH: Okay. And the notice letter,
20 Mr. Bruce, that you sent these offset -- or operators in
21 the pool, it says, "Enclosed is a copy of the application",
22 does your Application go into any more detail on what Kerr-
23 McGee seeks in this case?

24 MR. BRUCE: Yeah, Mr. Examiner, the Application
25 did request -- now the numbers have changed somewhat, but

1 the Application did request a specific amount that we
2 sought to make -- to extend the time. The Application
3 requested approximately 600,000 MCF. We will be asking for
4 a lesser number than that. We did specify the well unit,
5 and we specified the ending period for which we would seek
6 to make up the underproduction.

7 EXAMINER CATANACH: Okay, so they presumably have
8 all the information they needed to evaluate this proposal.

9 Okay, I have nothing further.

10 THE WITNESS: Thank you.

11 EXAMINER CATANACH: This witness may be excused.

12 TODD N. CREAMER,

13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name and city of
18 residence?

19 A. My name is Todd N. Creamer, I live in Dallas,
20 Texas.

21 Q. Who do you work for?

22 A. I work for Kerr-McGee Oil and Gas Onshore, L.L.C.

23 Q. And what is your job with Kerr-McGee?

24 A. I'm a geologist.

25 Q. Have you previously testified before the

1 Division?

2 A. No, sir, I have not.

3 Q. Would you summarize your educational and
4 employment history for the Examiner?

5 A. Yes, sir, I earned a bachelor's degree in geology
6 from the University of Rochester in 1993. I worked for the
7 U.S. Geological Survey for two years after that, and then
8 earned my master's degree in geology from North Carolina
9 State University in Raleigh, North Carolina, in 1998.

10 I have been employed by Kerr-McGee or its
11 predecessors for the past approximately three years, and
12 I've been the geologist in charge of development for the
13 Indian Basin area for the past two years.

14 Q. And you are familiar with the geology involved in
15 this matter?

16 A. Yes, sir, I am.

17 MR. BRUCE: Mr. Examiner, I'd tender Mr. Creamer
18 as an expert petroleum geologist.

19 EXAMINER CATANACH: He is so qualified.

20 Q. (By Mr. Bruce) Mr. Creamer, could you go to your
21 Exhibit 3, identify it for the Examiner and just briefly go
22 into the Cisco/Canyon geology in this area?

23 A. Yes, sir. Exhibit Number 3 is a structure map
24 made on top of the productive Cisco formation. It
25 represents -- that is, this nine-section area represents a

1 small piece of a much larger reservoir which extends
2 several miles to the west in the Indian Basin-Upper Penn
3 Gas Pool, several miles to the north, towards South Dagger
4 Draw and North Dagger Draw fields, and over several miles
5 again to the east, into the Upper Penn Associated Gas Pool.

6 The reservoir is a dolomite body which averages
7 300 to 400 feet thick, roughly, although it is thinner in
8 places, and it's thicker than that in other places. It
9 contains a complex network of pores and fracture systems of
10 varying scales, which govern again a complex fluid flow.

11 Q. In looking at this exhibit, let's just
12 concentrate on your well unit, which covers all of Section
13 2. Could you identify the wells on that unit and just
14 briefly state for the Examiner the status of each of those
15 wells?

16 A. Yes, sir. The Conoco State Number 1, in the
17 northwest quarter section, was drilled in 1965, produced
18 for approximately 40 BCF and was plugged and abandoned in
19 June of 2000.

20 The Number 2 well in the southwest quarter
21 section was drilled in July of 1995, produced approximately
22 7 BCF and was temporarily abandoned in September of this
23 year.

24 The Number 3 well is a saltwater disposal well,
25 drilled in April of 1998, and has been actively disposing

1 since then. It is active still.

2 Q. That disposes into the Devonian, does it not?

3 A. That's right, it disposes into the Devonian
4 formation, and it's disposing of water produced from the
5 Cisco/Canyon formations.

6 The Conoco State Number 4 is not a well but a
7 proposed location in the southwest quarter section.

8 There is no Conoco State Number 5 well.

9 The Number 6 well was drilled -- it is a producer
10 -- was drilled in April of 2000, in the northeast quarter
11 section and as of September, 2000, had produced
12 approximately 600 million cubic feet of gas. It is active.

13 The Conoco State Number 7 well immediately
14 offsets the plugged Number 1 well in the northwest quarter
15 section. It was drilled in June of 2000 and as of
16 September, 2000, had produced approximately 60 million
17 cubic feet of gas and is an active producer.

18 Q. Would you move on to your final exhibit, Exhibit
19 4, and describe what that shows for the Examiner?

20 A. Exhibit 4 is a structural cross-section through
21 three wells on the Conoco State lease. Electric logs show
22 that the reservoir is fairly similar across this lease,
23 fairly uniform in thickness and in other reservoir
24 characteristics.

25 Q. Now, one issue that could arise is whether or not

1 -- if Kerr-McGee is granted this Application, whether or
2 not it could have any adverse effect on offsets. Just from
3 a geologic standpoint, do you see any effect on the offsets
4 by allowing Kerr-McGee to make up this underproduction?

5 A. My feeling is that there would not be any
6 detrimental effect on our offset operators, and the reason
7 for my thinking is that the Conoco 6 and Number 7 producers
8 are approximately 2200 feet apart, and we do not see any
9 interaction, pressure or production or otherwise, between
10 those two wells.

11 Since any offset wells would be approximately
12 1650 feet outside of that line, they would have to be at
13 least 3000 to 3300 feet away from any well that we would
14 use to make up that underage on the Conoco State lease.

15 Q. Were Exhibits 3 and 4 prepared by you or under
16 your supervision?

17 A. Yes, sir, they were.

18 Q. And in your opinion, is the granting of Kerr-
19 McGee's Application in the interests of conservation and
20 the prevention of waste?

21 A. Yes, sir.

22 MR. BRUCE: Mr. Examiner, I move the admission of
23 Exhibits 3 and 4.

24 EXAMINER CATANACH: Exhibits 3 and 4 will be
25 admitted as evidence.

EXAMINATION

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BY EXAMINER CATANACH:

Q. Mr. Creamer, the Number 1 well that was drilled, that's in the northwest quarter; is that correct?

A. Yes, sir.

Q. And that produced 40 BCF?

A. Slightly in excess of 40 BCF, sir.

Q. Before it was plugged and abandoned?

A. Yes, sir.

Q. And at which point -- Let's see, the Number 7 is the one that's also in the northwest quarter?

A. Yes.

Q. And that was just recently drilled. It looks like those two wells are in close proximity to each other.

A. 150 feet apart.

Q. Was the Number 1 well plugged due to -- Do you know why it was plugged?

A. With water encroachment, it became necessary to use artificial lift to produce that well. However, the size of the casing is too small to -- was prohibitively small for us to install the appropriate equipment. So we drilled the well with 7-inch casing, which is the Number 7 well.

Q. So I assume that these wells are now produced with downhole pumps?

1 A. Yes, sir, electric submersible pumps.

2 Q. Considerable water production?

3 A. In excess of 1000 barrels a day.

4 Q. Per well?

5 A. Per well.

6 Q. And do you know why the Number 2 is TA'd? Is
7 that not producing anymore?

8 A. That's right, it was in an unorthodox location,
9 and we wanted to get back the normal allowable, the full
10 section allowable. We had been restricted to a 4.2-
11 million-a-day allowable out of what would have been a 6.9-
12 million-a-day allowable, because of the unorthodox
13 position. And I believe the reservoir engineer will go
14 into more detail about the history of how we've moved
15 through those wells.

16 Q. The Number 6 well is in the northeast quarter of
17 that section; is that correct?

18 A. Yes, sir.

19 Q. And these wells are producing in the same
20 interval as is being produced in the remainder of the pool,
21 as far as you know, the Cisco --

22 A. Yes, that's right.

23 Q. -- formation?

24 Is that formation pretty much correlatable across
25 the entire pool? Pretty good correlation?

1 A. At a very fine scale, it becomes more difficult.
2 Meaning at the foot scale. However, it is correlative all
3 the way across the pool. It is one continuous dolomite
4 body.

5 Q. Is it all one massive zone that's being produced,
6 or is it several different intervals?

7 A. I think it is one massive zone.

8 EXAMINER CATANACH: Okay, I have nothing further
9 of this witness, Mr. Bruce.

10 JOSEPH M. MARTIN,

11 the witness herein, after having been first duly sworn upon
12 his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Will you please state your name and city of
16 residence for the record?

17 A. My name is Joseph M. Martin, and I live in
18 Grapevine, Texas.

19 Q. Who do you work for and in what capacity?

20 A. I work for Kerr-McGee Oil and Gas Onshore,
21 L.L.C., as a senior reservoir engineer.

22 Q. Have you previously testified before the
23 Division?

24 A. Yes, sir, I have.

25 Q. And were your credentials as an expert engineer

1 accepted as a matter of record?

2 A. Yes, sir, they were.

3 Q. And are you familiar with engineering matters
4 related to this Application?

5 A. Yes, sir, I am.

6 MR. BRUCE: Mr. Examiner, I tender Mr. Martin as
7 an expert petroleum engineer.

8 EXAMINER CATANACH: He is so qualified.

9 Q. (By Mr. Bruce) Mr. Martin, could you identify
10 your Exhibit 5 for the Examiner and describe the history of
11 the well unit and the wells in the unit?

12 A. Yes, sir. This Exhibit, Number 5, displays the
13 production history for the Conoco State Gas Unit, beginning
14 in 1970.

15 The red line depicts gas production in MCF per
16 day, while the green line represents barrels of condensate
17 per day and the blue line is barrels of water per day.

18 The yellow-shaded letters on the exhibit reflect
19 the occurrence of major related well events during the life
20 of the gas unit.

21 The Number 1 began producing in 1965, as Mr.
22 Creamer testified. Beginning in 1995, the well started to
23 produce water, which caused gas production to decline
24 drastically.

25 As the Number 1 had small production casing

1 limiting its artificial lift potential, a second well, the
2 Conoco State Number 2, was drilled and completed in mid-
3 1995. The Number was later shut in, in late 1995, and the
4 Number 2 produced alone the unit until April, 2000, when
5 the Number 6 well was completed. Please note that water
6 encroached in the Number 2 in the fall of 1999, reducing
7 its gas-producing potential.

8 The Number 7 well came on production in July of
9 2000, and the Number 1 was plugged and abandoned in June of
10 2000, and the Number 2 was TA'd in September of this year.

11 To summarize, at the present time, the Number 6
12 and Number 7 wells are the Penn producers on the unit,
13 producing by means of high-volume lift submersible pump at
14 a rate of approximately 5 million cubic feet of gas per day
15 and over 3000 barrels of water per day, as shown on the
16 curve for September of this year.

17 Q. Let's move on to your Exhibit 6 and maybe discuss
18 a little bit of the history of the overage and underage in
19 this well unit.

20 A. Exhibit Number 6 represents the monthly over- and
21 underproduction figures in MCF per month from January,
22 1996, through September, 2000, with significant actions
23 during that time noted on the curve.

24 Again, the Number 2 well was the lone producer on
25 the unit for most of the time period that's shown on this

1 curve, with the solid black line representing the
2 nonmarginal pool allowable for this unit. Note that the
3 Number 2 well's production was overproduced through point
4 A, which is January, 1998, on the graph.

5 With the Number 2 producing, the unit allowable
6 was reduced to 124,000 MCF per month, or approximately 4.1,
7 4.2 million cubic feet per day, as the unit was penalized
8 due to the unorthodox location of that well.

9 At point A, or in January of 1998, production
10 from the Number 2 was lowered to begin making up for the
11 overproduction from the Number 2.

12 In July, 1999, gas production curtailment
13 throughout the field was initiated due to maximum
14 processing capacity being reached at the Indian Basin gas
15 plant. Shortly thereafter, the cumulative overproduction
16 on the Conoco State Unit was made up, and the unit was in
17 balance at that time. However, when we tried to go back in
18 and increase production in the Number 2 well, the well
19 began making water, and we were never able again to come
20 close to the higher production volumes that we had
21 previously, even though we tried artificial lift on the
22 well.

23 The loss of production caused us to initiate a
24 development plan as we drilled and completed the Number 6
25 in April of this year, followed by the Number 7 well in

1 July.

2 Following that well's completion, the Number 2
3 was temporarily abandoned in September, which by this
4 action increased the unit's allowable from 124,000 MCF per
5 month to 210,000 MCF per month, as shown by the solid black
6 line jumping in the latter part of this year. The decision
7 to shut in the Number 2 was made as the two new producers
8 on the unit have production capabilities greater than the
9 penalty-reduced, or -restricted, allowable of 4.1 million
10 cubic feet per day.

11 MR. BRUCE: And Mr. Examiner, for your
12 information, Administrative Order NSL-4386-A, dated
13 September 19th, 2000, removed the production penalty from
14 the well unit when the Number 2 well was shut in.

15 Q. (By Mr. Bruce) Now, Mr. Martin, on this figure
16 your final -- or I should say your end of September,
17 September 30, 2000, cumulative underage is 572,945, but
18 that's not you're asking the extension period for, is it?

19 A. No, sir, it is not.

20 Q. What amount are you asking to make up during the
21 extended period?

22 A. The underproduction figure for which we're asking
23 additional time be made up totals 487,525 MCF.

24 Q. And that would be the amount ending at what time?

25 A. We're asking that to be carried over to end at

1 the period of March, 2000.

2 Q. Okay, yeah, but that 487,000 figure was through
3 March 31 of the year 2000?

4 A. Yes, sir, that's correct.

5 Q. Okay. And so under the general rules of the
6 prorated gas pools, that would have to be made up by March
7 31, 2001?

8 A. Yes, sir, right.

9 Q. And so you are asking an additional year until
10 the end of March, 2002, to make up that underproduction?

11 A. Make up the 487,000.

12 Q. Okay. We'll get into that a little bit more in a
13 minute, but why don't you move on to your Exhibit 7 and
14 just briefly state what that is for the Examiner?

15 A. Exhibit 7 is a graph which shows the cumulative
16 over- and underproduction gas figures by month from July,
17 1996, through September, 2000.

18 Q. And it basically reflects the same thing as
19 Exhibit 6, just a different way of stating it?

20 A. Yes, sir, it's a cumulative figure showing the
21 overproduction and then the underproduction in the latter
22 part of the life of the unit.

23 Q. Okay, what is your Exhibit 8?

24 A. Exhibit 8 is a copy of the approved APD for the
25 proposed Number 4 Penn producer to be drilled in the

1 southwest quarter of the Conoco State Unit. The drilling
2 of this well is a part of Kerr McGee's ongoing plan to
3 increase production from the unit, which has included the
4 drilling of the Number 6 and Number 7 wells, and also the
5 upgraded -- the compression capacity on the unit, which is
6 underway at this time.

7 Q. Okay. Now, could you briefly explain for the
8 Examiner why it is that Kerr-McGee has not made up any
9 underproduction, say, during the last six or seven months,
10 and why it won't be able to make up the underproduction by
11 the end of March, 2001?

12 A. Well, under the gas-curtailement procedure
13 outlined by the gas plant in the field, production on the
14 unit cannot exceed the nonmarginal gas unit pool allowable,
15 which for the Conoco State Unit is currently 210,000 MCF
16 per month. However, we do anticipate the ability to
17 produce additional volumes to the plant, as the plant
18 operator, Marathon Oil Company, is now expanding the
19 processing capability of the plant.

20 Q. Okay. So the inability to make it up is
21 basically due to their curtailment policy at the Indian
22 Basin Gas Plant?

23 A. Yes, sir, that's correct.

24 Q. It hasn't been because Kerr-McGee just isn't
25 producing its reserves?

1 A. No, that's not correct.

2 Q. Okay. So because of that curtailment policy,
3 since it won't allow any more than the maximum -- or I
4 should say the gas pool allowable, you will not be able to
5 make up any underproduction until that Indian gas plant is
6 expanded?

7 A. Yes, sir, that's correct.

8 Q. Okay. Were Exhibits 5 through 8 prepared by you
9 or under your supervision?

10 A. Yes, sir, they were.

11 Q. And in your opinion, is the granting of Kerr-
12 McGee's Application in the interests of conservation and
13 the prevention of waste?

14 A. Yes, it is.

15 MR. BRUCE: Mr. Examiner, I tender the admission
16 of Exhibits 5 through 8.

17 EXAMINER CATANACH: Exhibits 5 through 8 will be
18 admitted as evidence.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. Mr. Martin, I just want to go through some of the
22 numbers here with you and try and verify these.

23 In Exhibit Number 6, the black line, the first
24 black line, or the lower black line, represents the
25 allowable for the unit. That is the penalized allowable?

1 A. Yes, sir.

2 Q. And that amount is what again?

3 A. 124,000 MCF per month.

4 Q. 124,000 MCF per month. Okay. And the increased
5 -- I presume that's the nonpenalized, nonmarginal
6 allowable, is what?

7 A. 210,000 MCF per month.

8 Q. 210,000. And that's the current allowable?

9 A. Yes, sir, it is.

10 Q. I assume that takes into account the oversized
11 proration unit?

12 A. Yes, the acreage factor here is 1.05.

13 Q. Okay. So the Number 2 well overproduced from --
14 I don't know, January of 1996 until sometime in January of
15 1998, approximately?

16 A. Right, at the end of 1997, yes, sir.

17 Q. What happened subsequent to 1996? Do we need to
18 be concerned about that, or -- as far as the production on
19 the Number 2 well?

20 A. Prior to that time? The well came on in July of
21 1995, and my recollection is, during that time, what we can
22 see from the other curve on Exhibit Number 5, the
23 production there, the production from the unit was solely
24 from that well. So the production from the middle of 1995
25 until January, 1996, was in the 4-to-5-million-a-day range.

1 Q. Okay. So in approximately January of 1998,
2 that's when the well was cut back?

3 A. Yes, sir.

4 Q. And it was produced at a reduced rate in order to
5 make up the overproduction?

6 A. That's correct.

7 Q. And that balance was achieved, I take it -- Can
8 you give me a month when that was -- came into balance?

9 A. That was achieved in October of 1999.

10 Q. And the well was not produced at a higher rate
11 after that because of mechanical problems or because of the
12 water?

13 A. Because of water encroachment, yes, sir.
14 Whenever we opened the well up we had water production, and
15 we were unable to produce it at anywhere near the rates
16 that it had produced prior to that time.

17 Q. So the GPU is still not producing at the
18 nonmarginal allowable; is that correct?

19 A. That's correct, sir.

20 Q. It's producing, did you say, 5 million a day?

21 A. Approximately 5 to 5.2 million a day.

22 Q. Is that total from both wells?

23 A. Yes, sir.

24 Q. That's why you guys are drilling the Number 4
25 well, is to try and get that production up?

1 A. Correct. That and, again, as I mentioned
2 previously, we're installing additional compressor capacity
3 right now also to increase production.

4 Q. Okay, so the underproduction that you're seeking
5 to extend the time period on was acquired during what
6 period of time?

7 A. It was acquired during --

8 Q. Did that start when the proration unit was in
9 balance at that point C?

10 A. Yes, it would have been acquired during the
11 proration period ending March of 2000.

12 Q. Okay, and that amount is 487,525 MCF?

13 A. Yes, sir, that's correct.

14 Q. That's what you're seeking to have extended?

15 A. Yes, sir.

16 Q. And according to the proration rules, you
17 normally have a year to make up that underproduction?

18 A. That's correct.

19 Q. Okay, and you're seeking an additional year?

20 A. Yes, sir.

21 Q. Okay. Do you know when the Indian Basin gas
22 plant is going to open for additional production?

23 A. They've done the work, they've done a lot of the
24 work. My understanding is, they're having difficulties
25 weatherwise and other mechanical-related problems and it's

1 expected in the near future. However I do not have an
2 exact date. I don't know if they have an exact date as to
3 when the expansion would be completed and it would open up
4 for additional volumes.

5 Q. Now, at this point in time, you don't know
6 whether or not the two existing wells and the proposed
7 additional well will even meet the allowable; is that
8 correct?

9 A. We don't know that for sure, that's correct, but
10 we're doing the work in anticipation of reaching the
11 allowable.

12 Q. You presume the Number 4 well will take you over
13 the top of the nonmarginal allowable?

14 A. That plus the additional compression capacity
15 that we're putting on the unit, yes, sir.

16 Q. Okay. The two wells that are producing now,
17 they're being restricted? Their production is being
18 restricted?

19 A. Being restricted in a way such that the
20 compression capacity that we have there right now is not
21 sufficient, that if we put the additional three-stage
22 compression that we plan on, then we should be able to
23 produce additional capacity.

24 Q. So that depending on the capability of your
25 production on your GPU, that underproduction may be made up

1 quickly or over an extended period of time?

2 A. That's correct, and also the gas plant is a
3 factor in there, as to how much gas they're going to be
4 able to take and how much gas is going to come from the
5 field, additional gas is going to come from the field once
6 they do open the plant up.

7 EXAMINER CATANACH: Okay. I have nothing further
8 except, do you guys have these numbers in tabular form,
9 these production numbers, say, month by month or --

10 MR. BRUCE: Yeah, Mr. Examiner, I forgot them at
11 my office today.

12 EXAMINER CATANACH: Okay.

13 MR. BRUCE: I'll ship them over tomorrow.

14 EXAMINER CATANACH: I would appreciate that.
15 That would help us out.

16 I have nothing further.

17 MR. BRUCE: That's all I have.

18 EXAMINER CATANACH: Okay. There being nothing
19 further in this case, Case 12,537 will be taken under
20 advisement.

21 (Thereupon, these proceedings were concluded at
22 2:40 p.m.)

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings
25 the Examiner hearing of Case No. 12537
heard by me on November 16, 1970

David R. Catnach, Examiner
Of Conservation Division

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,537
)
APPLICATION OF KERR-McGEE OIL AND GAS)
ONSHORE, L.L.C., TO EXTEND THE TIME)
DURING WHICH IT MAY MAKE UP)
UNDERPRODUCTION IN A GAS PRORATION UNIT)
IN THE INDIAN BASIN-UPPER PENNSYLVANIAN)
GAS POOL, EDDY COUNTY, NEW MEXICO)
)

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 16th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 16th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317